

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 IO-13 SP-02 AID-05 EB-07 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

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FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 4131

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

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DEPARTMENT PASS FRB, LABOR

TREASURY FOR DONALD SYVRUD, OASIA

E.O. L1652: N/A

TAGS: ECON, UK

SUBJECT: THE SOCIAL CONTRACT IS UPDATED ("THE NEW SOCIAL
CONTRACT")

REFERENCE: LONDON 9894

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SUMMARY: A RETOOLED MODEL OF THE SOCIAL CONTRACT COVERING THE NEXT THREE YEARS WAS APPROVED JULY 28 BY THE NATIONAL EXECUTIVE COMMITTEE OF THE LABOUR PARTY BY A 13 TO 7 VOTE. AS A SOP TO THE LEFT, MANY OF ITS FAVORITE ECONOMIC IDEAS HAVE BEEN DUSTED OFF, BUT STAND AS MUCH CHANCE OF BEING IMPLEMENTED AS WHEN FIRST PROPOSED IN 1973. BOTH THE TRADE UNIONS AND THE GOVERNMENT WERE ABLE TO TONE DOWN THE MOST INFLAMMATORY PROPOSALS. WHAT REMAINS CAN BE VIEWED AS THE PRICE THE PRIME MINISTER HAS HAD TO PAY FOR MAINTAINING A DEGREE OF UNITY IN THE PARTY. END SUMMARY.

1. THE SOCIAL CONTRACT. AN AGREEMENT BETWEEN THE LABOUR GOVERNMENT AND THE TRADE UNIONS, PERMITTED THE COOLING OF PASSIONS WHICH HAD DEVELOPED IN THE WAKE OF THE MINERS' STRIKE AND THE THREE-DAY WEEK EPISODE OF 1973-74. IT DEFINED A RELATIONSHIP BETWEEN THE UNIONS AND GOVERNMENT AND ESTABLISHED PROGRAMMATIC GOALS FOR ECONOMIC AND SOCIAL POLICIES LARGELY REFLECTING THE IDEOLOGICAL PREDILECTIONS OF THE LABOUR PARTY'S LEFT WING AND THE MORE MILITANT AMONG THE TRADE UNION LEADERSHIP. IN OPERATIONAL TERMS, THE SOCIAL CONTRACT DID LITTLE TO RESTRAIN INDIVIDUAL UNIONS FROM DEMANDING AND GETTING WAGE INCREASES FAR IN EXCESS OF THE PREVAILING RATE OF INFLATION DURING THE SPRING OF 1975. WITH THE ADVENT OF THE INCOMES POLICY LAST AUGUST, IT BECAME CLEAR THAT THE SOCIAL CONTRACT WOULD NEED REVISION. THE RESULT WAS A PERIOD OF DISCUSSIONS IN THE LIAISON COMMITTEE BETWEEN THE TUC AND THE LABOUR PARTY. BY JUNE, THE DISCUSSIONS (REFTEL) HAD PRODUCED A NEW DOCUMENT WHICH WENT SOME DISTANCE TOWARDS LOWERING THE LEVEL OF THE FLAME UNDER MANY OF THE LEFT'S FAVORITE ECONOMIC AND SOCIAL PANACEAS. THIS DOCUMENT WAS PLACED BEFORE THE NEC WHICH, DUE TO THE ABSENCE OF SEVERAL MODERATE MEMBERS OF THE NEC, VOTED TO REJECT IT THUS SETTING THE STAGE FOR THE JULY 28 MEETING.

2. COMPLICATING THE GOVERNMENT'S TACTICAL POSITION WAS THE JULY 22 ANNOUNCEMENT OF CUTS IN PUBLIC EXPENDITURE MADE BY THE CHANCELLOR WHICH FURTHER IRRITATED THE LEFT WING NEC MEMBERS. TO BLUNT THIS ANGER AND SECURE MAJORITY SUPPORT, THE GOVERNMENT HAD TO MAKE FURTHER CONCESSIONS.

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SIONS. AMONG THESE WAS A PROMISE TO INTRODUCE WEALTH TAX LEGISLATION AT THE NEXT SESSION OF PARLIAMENT AND THE ESTABLISHMENT OF A TARGET OF 1 MILLION NEW JOBS OVER THE THREE-YEAR LIFE OF THE SOCIAL CONTRACT.

3. THE PRINCIPAL POINTS INCLUDED IN THE REVISED SOCIAL CONTRACT ARE SUMMARIZED BELOW:

BALANCE OF PAYMENTS

- TRADE UNION PARTICIPATION AT THE COMPANY LEVEL IN
FIXING CEILING LEVELS FOR IMPORT PENETRATION.
 - SELECTIVE IMPORT CONTROLS.
- PRICES
- MORE SOPHISTICATED AND SELECTIVE PRICE CONTROLS
DEALING WITH INDUSTRIAL MONOPOLIES OR OLIGOPOLIES.
 - GENERAL SUBSIDY FOR FUEL BILLS.
- EMPLOYMENT
- CREATION OF 1 MILLION NEW JOBS, MAINLY IN MANUFAC-
TURING INDUSTRY. FURTHER EMPHASIS ON JOB TRAINING.
- INDUSTRIAL STRATEGY
- EMPHASIS ON DOMESTIC AND NOT FOREIGN INVESTMENT.
 - PLANNING AGREEMENTS WITH 100 TOP FIRMS.
 - AN INVESTMENT RESERVE FUND EARMARKING SOME PROPOR-

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TION OF PROFITS FOR COUNTER-CYCLICAL INVESTMENT.

- INCREASING THE FUNDS AVAILABLE TO THE NATIONAL ENTERPRISE BOARD TO 1 BILLION POUNDS A YEAR.
 - CLOSER PUBLIC SUPERVISION OF FINANCIAL INSTITUTIONS AND POSSIBLE EXTENSION OF THE PUBLIC SECTOR (READ NATIONALIZATION) TO ENSURE THAT THE SYSTEM WORKS IN THE PUBLIC INTEREST.
 - AN URGENT GOVERNMENT INQUIRY INTO SHORT-TERM CAPITAL
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TAL MOVEMENTS AND EXCHANGE RATE CHANGES.

SOCIAL POLICY

- A WEALTH TAX TO HELP FINANCE INCREASINGLY COSTLY SOCIAL AIMS.
- MOVING TO CREATE A CONSENSUS ON LIMITING THE HIGHEST SALARIES.

OTHER AREAS COVERED BY THE DOCUMENT INCLUDE INDUSTRIAL DEMOCRACY, DEVOLUTION, EDUCATION, HOUSING, CONSTRUCTION, AND TRANSPORT. AGAIN, THE PROPOSALS FOLLOW PREDICTABLY IDEOLOGICAL LINES EMPHASIZING GREATER GOVERNMENT INTERVENTION, GREATER WORKER PARTICIPATION AND A CONSCIOUS LEVELLING OF THE ECONOMIC DIFFERENCES BETWEEN PEOPLE.

4. COMMENT: IT IS CLEAR FROM THE FOREGOING THAT HMG IS PREPARED TO CONCEDE IN RHETORIC, WITHIN THE PARTY/TRADE UNION CONTEXT. WHATEVER IS NECESSARY TO GO FORWARD WITHIN ITS ACTUAL ECONOMIC POLICY OF TIGHTENING THE SCREWS ON FISCAL AND MONETARY POLICY. HOWEVER, IT IS VERY UNLIKELY THAT ANY LEGISLATIVE PROPOSALS BASED ON THE SOCIAL CONTRACT WILL BEAR ANYTHING BUT THE VAGUEST RESEMBLANCE TO THE LANGUAGE OF THAT DOCUMENT. THE SOCIAL CONTRACT, ORIGINAL OR REVISED, SHOULD BE SEEN FOR WHAT IT IS: A NECESSARY NOD IN THE DIRECTION OF SOCIALIST ORTHODOXY MASKING A MORE CONVENTIONAL ECONOMIC APPROACH TO BRITAIN'S CURRENT ECONOMIC DIFFICULTIES. TO THAT END. IT WILL BE PRESENTED FOR APPROVAL BOTH AT THE TUC AND THE LABOUR PARTY ANNUAL CONFERENCES IN THE FALL.

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